



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Utilities

Meeting Date: December 16, 2024

Staff Report: 2409-3529

TITLE

Adoption of a Resolution Authorizing the City Manager to Transact for Electric Supplies to Meet the City's Electrical Needs under Electric Master Agreements; CEQA Status: Not a project

RECOMMENDATION

Staff recommends that City Council adopt a Resolution (Attachment A) authorizing the City Manager or their designee to execute one or more transactions under the Master Agreements with one or more pre-approved suppliers to purchase and/or sell electricity supplies and related services to meet the City's forecasted electricity load and regulatory requirements, subject to the following conditions:

1. The date for delivery of the electricity supplies for each transaction shall not exceed 36 months from the date the transaction is executed;
2. The delivery date of any transaction shall not extend beyond December 2039;
3. The maximum aggregate transaction limit under each Master Agreement shall be \$75 million;
4. All transactions shall be subject to the Palo Alto Municipal Code;
5. All transactions shall be subject to the City's Energy Risk Management Policy (Attachment B);
6. The transactions shall be undertaken with suppliers that have executed Master Agreements with the City; to date those suppliers are:
 - a. BP Energy Company;
 - b. Cargill Power Markets, LLC;
 - c. Constellation Energy Generation, LLC (formerly Exelon Generation Company, LLC);
 - d. Avangrid Renewables, LLC (formerly Iberdrola Renewables, LLC);
 - e. NextEra Energy Marketing, LLC;
 - f. PacifiCorp;
 - g. Powerex Corp;
 - h. Shell Energy North America (US), L.P.;
 - i. Silicon Valley Clean Energy Authority (SVCE); and

j. Turlock Irrigation District.

EXECUTIVE SUMMARY

Transacting with an active set of creditworthy counterparties is essential to ensure that the City meets its electric supply portfolio planning objectives, internal risk management controls, and external operational and regulatory requirements in a low-cost and time-efficient manner. Authorizing the City Manager or their designee to execute transactions under the City's electric Master Agreements with pre-approved suppliers will enable the purchase and/or sale of electricity supplies and related services to meet the City's forecasted electricity load.

In March 2013 City Council approved a similar resolution authorizing the City Manager or their designee to transact with specified suppliers for the calendar years 2013 through 2027 period (Resolution 9324¹). The authorization being sought now is to continue this approach for an additional 15-year period, for calendar years 2025 through 2039, with any given transaction term not to exceed 36 months from the date the transaction is executed.

BACKGROUND & ANALYSIS

The City procures long-term renewable electricity supplies from solar photovoltaic, wind, landfill gas, geothermal, and hydroelectric resources, for contract terms that span up to 35 years. In addition, City staff utilize electric Master Agreements with pre-approved suppliers to balance electric loads and supplies in the short- and medium-term, from one month to 36 months out. These transactions conform with the City's Energy Risk Management Policy, which was last modified in June 2024 (Resolution 10166²).

City Council periodically approves new Master Agreements with suppliers to maintain a diverse set of suppliers for the City to competitively procure electricity supplies³. Currently the City has ten suppliers, with SVCE being the last supplier approved by Council in March 2024 (Staff Report: 2401-2549⁴).

Under the March 2013 Council authorization, staff have undertaken over 200 transactions during the past 12 years totaling \$131.9 million, as outlined in Table 1 below.

¹ Resolution 9324: <https://www.cityofpaloalto.org/files/assets/public/v/1/city-clerk/resolutions/reso-9324.pdf>

² Resolution 10166: <https://portal.laserfiche.com/Portal/DocView.aspx?id=73765&repo=r-704298fc&searchid=8dd38e5a-e018-4318-9027-4a24829093de>

³ In December 2016 Council approved a standard form electric master agreement (Resolution 9652), based on the year 2000 version of the Edison Electric Institute (EEI) Master Power Purchase and Sale Agreement. This standard form agreement has been made available to any wholesale utility supplier on the City's website since that time; however, execution of, and delegation of authority to transact under, standard form master agreements with specific suppliers remains subject to Council approval before any transactions may be completed. <https://www.cityofpaloalto.org/files/assets/public/v/1/city-clerk/resolutions/reso-9652.pdf>

⁴ Staff Report 2401-2549: <https://portal.laserfiche.com/Portal/DocView.aspx?id=70876&repo=r-704298fc&searchid=af14b92c-33ca-4d9e-a37e-9c9eaf84e497>

Table 1: Transaction Volume under 2013 Authority by Counterparty			
Supplier	Purchases (\$)	Sales (\$)	Total Transactions (\$)
Avangrid	-	-	-
BP	2,020,420	431,100	2,451,520
Cargill	6,329,143	-	6,329,143
Exelon	10,836,186	2,620,886	13,457,073
NextEra	31,479,838	14,864,704	46,344,542
PacifiCorp	-	-	-
Powerex	12,993,375	441,160	13,434,535
Shell Energy	31,363,453	14,164,708	45,528,161
SVCE	-	-	-
Turlock	709,344	-	709,344
TOTAL	95,731,759	36,167,838	131,899,597

As shown above, over the past 12 years, the transaction volumes with two of the suppliers have approached the \$50 million authority limit.⁵ Staff anticipate the volume of transactions in the next 12 to 15 years could be higher due to higher volumes and prices, and hence recommend the transaction cap be increased from \$50 million to \$75 million.⁶

FISCAL/RESOURCE IMPACT

Authorizing the City Manager or their designee to transact under the electric Master Agreements for a term of up to 36 months does not by itself result in any resource impact, except for facilitating an efficient process to competitively procure electric supplies. Annual budgets approved by Council account for the purchase cost and sales revenue associated with these transactions.

STAKEHOLDER ENGAGEMENT

Utilities staff coordinates with the City Attorney's Office in negotiating Master Agreements and with the Administrative Services Department to transact within the Risk Management Policy (Attachment B) and associated Guidelines and Procedures.

⁵ When staff determines, based on the City's Energy Risk Management Guidelines, that a transaction is needed to hedge the City's energy market price risk, staff issues a solicitation to all enabled and qualified counterparties. Staff then awards the transaction to the supplier who submits the best-priced qualifying proposal. Often only a small number of the enabled suppliers will respond to the City's solicitations, which is why the City's total transaction volume since 2013 has been so concentrated among a few very large counterparties who are extremely active in California's energy markets.

⁶ Staff arrived at the \$75 million aggregate transaction limit by estimating the City's total transaction needs through 2039 (based on the current portfolio's monthly surplus/deficit positions and current market price forecast), and assuming that these total transaction needs will again be concentrated among a small handful of suppliers. Staff also added some additional room on top of this estimate (about 20%) to account for uncertainty around hydrological conditions, market prices, and the possibility that future transactions could become even more concentrated among a small number of suppliers.

ENVIRONMENTAL REVIEW

Authorizing the City Manager or their designee to transact for electric supplies to meet the City's electrical loads under electric Master Agreements does not constitute a project for the purposes of the California Environmental Quality Act, pursuant to California Public Resources Code Section 21065, and, therefore, no environmental assessment is required.

ATTACHMENTS

Attachment A: Resolution

Attachment B: Energy Risk Management Policy

APPROVED BY:

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